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Lender Risk Evaluation for Federal Energy Efficiency Projects

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Lenders evaluate Federal Energy Efficiency projects across three broad risk categories:

- Contract Risk
- Project Risk
- Participant Risk

Ultimately, pricing and terms are set by comparing a Project's overall risk and return to similar Projects in the private sector.

- Contract Risk: How well/consistently documented is the Project and the arrangements with the ESCo versus FAR and the ESPC/Utility Contract regulation?
  - Termination Risk
  - No Set-off
  - Multi-year Authority
  - Congressional Notification
  - Assignment to Lender
  - Absolute certainty of roles and responsibilities

- Project Risk: Can the Project perform as projected over the term specified? Emphasis on:

  - Equipment Risk
  - Maintenance & Operation Risk
  - Measurement & Verification Risk
  - Useful Life v.s. Term Risk
  - Inflation Risk

Participant Risk

- ESCo Risk
  - Experience of ESCo
  - Credit Strength of ESCo

- Customer Risk
  - Closure or Termination Potential
  - Payment History
  - Acceptance Risk

Key Points to Remember

- Lender prices to "weakest non-mitigatable risk" assumed.
- Lender's concern is repayment of their investment on-time. All actions / requests reflect increasing certainty of repayment.
- Most lenders make their return over time, <u>not</u> at funding.